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Improving the Financial Support Processes for the Sale of  
South Carolina Surplus Property

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South Carolina Budget and Control Board

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STATE DOCUMENTS

## **BACKGROUND**

The Office of Internal Operations provides centralized financial, budgetary and human resource support to all divisions within the South Carolina Budget and Control Board. Pursuant to the South Carolina Consolidated Procurement Code §11-35-70, the Budget and Control Board is responsible for promulgating regulations governing the disposal of surplus property, one of the many roles of the Board. The South Carolina Surplus Property Office (SPO) operates within the Division of General Services, and is responsible for the disposition of all surplus property. The role of the SPO is further defined in the SC Code of Regulations (R-19-445.2150), and the Office of Internal Operations provides specialized financial support to the SPO to assist the office with accomplishing its mission. The SPO is responsible for physically examining the assets to be disposed, and determining whether the assets could be re-sold or discarded as junk by state agencies. Once property is deemed to be resalable, the SPO arranges for the property to be picked up and placed in a central warehouse where the property is made available to other state agencies and eventually the general public. When the property is sold, the SPO charges an administrative fee for selling the item(s) and returns the remaining proceeds to the agency responsible for donating the property.

Numerous administrative processes are involved in tracking the assets donated by state agencies, which include determining when the property will be available for resale to the general public, recording the property sale and identifying the funds to be returned to the donating agency and returning those funds to the agency. The SPO must have sufficient financial support processes to properly track assets awaiting review as well as assets already received into inventory. The processes must also enable the office to record sales that occur by auction,

through the Internet or at the SPO warehouse. Currently, the automated accounting system used by the Budget and Control Board does not contain an inventory management module, so the SPO must use proprietary software to manage the support functions at the Surplus Property warehouse. The current software used by the SPO performs many functions, but does not interface with the automated accounting system used by the Board, and does not provide a method of notifying State Agencies when surplus property donated by the agencies are sold. To accommodate the deficiencies of the current SPO management information system, Internal Operations created a database to import sales data provided by the SPO. The database enables Internal Operations to reconcile sales data received from the SPO to the receipts deposited by the SPO, record the revenue in the accounting system, and generate the appropriate paperwork to notify agencies when their surplus property is sold. Presently, Internal Operations employs one full-time position who spends nearly 90 hours per month providing financial and administrative support to the surplus property office.

## **PROBLEM STATEMENT**

The current financial support processes provided by Internal Operations to the Surplus Property office includes significant hours of rework and duplication of effort, but should only require minimal effort to provide the same level of service if the inputs and processes are improved.

## **DEFINITIONS**

1. "Daily Sales" means the sale of State Surplus Property to State Agencies or the general public through the Internet or at the State Surplus Property Warehouse. Daily Sales may include cash receipts, credit card sales and checks received for the sale of state surplus property. The SPO provides Internal Operations with a printout of Daily Sales that occur along with validated deposit slips demonstrating the cash and checks that were deposited relating to all sales occurring for a particular day.
2. "Notice of Sale" means the documentation sent to a State Agency when their donated property is sold. The Notice of Sale identifies the property sold for the agency, the fee retained by Surplus Property, and the amount that will be returned to the donating agency.
3. "Auction Sales" refers to auctions conducted by the SPO to sale State Agency Property in lots rather than on an individual basis. The SPO identifies donated property that will be sold at auction when it is received into inventory at Surplus Property.
4. "Bill of Sale" means a preprinted document for recording a sale at the SPO. The Bill of Sale identifies the customer, items sold and the price of the items sold to include applicable sales tax and shipping and handling.
5. "Form 30" means a transfer document required by the Comptroller document when transferring cash or appropriation authority from one State Agency to another State Agency or to record certain transfers within an agency. The document specifies the account(s) the Comptroller General must use when recording the transaction in the Statewide accounting system.

6. "GAFRS" is the Governmental Accounting and Financial Reporting System, or the automated accounting system used by the Budget and Control Board.
7. "Gov Deals" refers to the website [www.govdeals.com](http://www.govdeals.com), a commercial website the SPO uses to advertise certain property for sale. The website charges a fee of 7.5 percent of the sales price of the item sold, and the SPO recoups the fee from the customer by adding the additional cost to the original price of the item.
8. "PayPal" refers to an e-commerce business that replaces traditional payment methods such as checks and money orders for purchases made through the internet.

## **DATA COLLECTION**

The following methods were employed in gathering information to identify opportunities for improvement:

- Interviews Interviews were conducted with key employees involved in the SPO support functions to gain an understanding of the processes involved. Additional interviews were conducted with personnel responsible for Information Technology support at the SPO and the individual responsible for management of Internal Operations' Surplus Property Information System.
- Flowcharting Visual representations of the processes were prepared to assist in identifying duplication of efforts, batch processing, handoffs, and process bottlenecks. The flowcharting process forces you to document the detailed steps involved in a process, including alternative workflows when different situations are encountered.

The details of a process must be identified when considering process changes.

- **Sampling** Sampling was conducted to identify and quantify errors and rework conducted by the Office of Internal Operations when processing Surplus Property Daily Sales.
- **Information System Documentation** Internal Operations' Surplus Property Information System was analyzed to identify automated steps performed in the financial support process.
- **Review Statutory Authority** The South Carolina Consolidated Procurement code and Code of Regulations were reviewed to obtain an understanding of the authority and regulations governing the SPO. The authority of the Office must be considered when implementing process changes.

## **DATA ANALYSIS**

Analysis of the SPO support function in Internal Operations reveals that the most significant portion of work involves processing Surplus Property Daily Sales and Auctions (See *Table 1*).

- *Table 1* -

<b><u>Support Function</u></b>	<b><u>Hours Per Month</u></b>	<b><u>Percentage</u></b>
Daily Sales & Auctions	70	78%
Surplus Invoices	1	1%
Notices of Sale	1	1%
Form 30 Transfers	5	6%
Keying Credit Card Payments	5	6%
Reconciling to GAFRS	3	3%
Sales Tax Return and Research	3	3%
Journal Entries	1	1%
Preparing Customer Refunds	1	1%
<b>Total</b>	<b>90</b>	<b>100%</b>

Daily sales and auctions refer to the daily process the SPO undergoes in preparing the cash, checks, and credit card receipts for deposit that were received from customers during the business day. This process involves recording the sales in the Surplus Property Information System, reconciling the funds received and deposited to the property sold, and transferring copies of the supporting documentation and a data file to Internal Operations. When the SPO conducts an auction, a similar process is followed and the supporting documentation is batched and forwarded to Internal Operations separately. *Appendix 1* provides a summary of the number of daily sale and auction batches submitted to Internal Operations for processing during fiscal year 2008 and 2009 as of February 28. *Appendix 2* provides an illustration of the daily sales

process conducted by the SPO, and *Appendix 3* demonstrates the process followed by Internal Operations in completing the daily sale.

### **Finding 1 – Rework**

*The Change Agent's Guide to Radical Improvement* highlights specific areas of focus when analyzing a process to improve, such as identifying variability in a process, determining where errors and rework occur, and discovering where batch processing occurs. (pp.142-143).

Examination of Internal Operations' daily sales process (*Appendix 3*) reveals a considerable amount of variability in the workflow which leads to additional processing steps depending on exceptions or variances that occur in a sale. Variability occurs when a daily sale contains a variance such as an internet sale, customer overpayment and refund, sales of Budget and Control Board donated property, and sales of temporary license tags to customers who purchase a vehicle. These variances cause rework, or additional processing steps to correct the original data that was submitted to Internal Operations.

*Table 2* below provides additional analysis of the variances that occur when daily sales are submitted to Internal Operations. A random sample of 25 daily sales and auctions were selected for sales occurring in fiscal year 2009 to determine the quantity of variances that occur on a frequent basis.



-Table 2-

<u>Variance Type</u>	<u>No. of Variances</u>
Temporary Tags	41
Sale of Budget and Control Board donated Property	1
Tax Error – Gov Deal and PayPal Sales	53
Gov Deals – 7.5% Fee	60
Overpayment / Refund due or Issued to customer	3
PayPal Fee	29
PayPal Shipping & Handling Adjustment	28
Other	3
Total Variances	218

Nearly 97 percent of the variances that occur result from Internet Sales (EBay and Gov Deals) and the resulting tax and shipping and handling variances from those sales, and temporary license tag sales to customers purchasing vehicles. The SPO spends considerable time researching, documenting, and communicating the variances to Internal Operations so the appropriate adjustments can be made. The primary cause for the rework performed by Internal Operations is the current information system used by the SPO does not have the appropriate fields to enable users at Surplus Property to enter shipping and handling, fees associated with sales over the internet, or other adjustments such as temporary tag fees. In addition, other common errors result from completing a preprinted Bill of Sale by hand and then keying the data into the information system after the funds for the sale are collected. Calculation errors on the handwritten Bill of Sale result in overages or shortages of cash received for the sale.

## **Finding 2 – Duplication**

The SPO and the Office of Internal Operations maintain databases that contain duplicate data; the customers purchasing the property, the surplus items sold, the funds due back to the donating agency, the fee retained by Surplus Property, and the sales tax charged. In addition, both offices maintain duplicate paperwork; Sales transmittals, cash transmittals, validated deposit slips. The reason for the duplication can be traced back many years ago when Internal Operations developed the database to streamline the process for issuing notice of sales to donating agencies. The database created by Internal Operations accomplished the goal, and Internal Operations accepted responsibility for issuing the notice of sales to donating agencies. When this process change occurred, future changes and enhancements to the SPO information system addressed the requirement of generating a data file to Internal Operations rather than the actual output of process, the notice of sale.

## **Finding 3 – Improper Classification of Revenue**

*Appendix 4* contains a sample Notice of Sale form for the sale of state surplus property. The Office of Internal Operations frequently receives calls from State Agencies because the selling price of the donated items listed on the notice do not match the selling price of the item when it was donated. Moreover, state agencies also question the amount included as service charge because the amount of the service charge is more than Surplus Property's fee schedule for the item sold. These differences occur because the selling prices of surplus items that are sold through the internet also include the fees associated with the commercial website(s) that sold the items. For example, Surplus property will add 7.5 percent to the selling price of an item sold on

Gov Deals, and the additional 7.5 percent collected from the buyer is disbursed to the vendor website monthly. As a result of this process, the 7.5 percent fee will appear in the selling price of the item and also the service charge column of the Notice of Sale. This classification of the fee gives the appearance that the SPO retained a larger share of the proceeds than their fee schedule outlines.

Additionally, when surplus property is sold through EBay, buyers purchase the items using a PayPal account. PayPal charges a variable fee for the service, which is deducted from the proceeds of the sale. Shipping and handling charges are added to the sales price of the item, so the net proceeds for the sale represent the sales price of the item plus shipping and handling, minus the fee charged by PayPal. When recording the transaction in the automated accounting system (GAFRS), Internal Operations records the gross proceeds from the sale as revenue, and the PayPal fee is recorded as a reduction of revenue rather than an expense. However, when surplus property is sold through Gov Deals, Internal Operations classifies the entire proceeds from the sale as revenue in GAFRS, and Internal Operations submits a payment once a month to Gov Deals and records the transaction as an expenditure. Internal Operations recorded \$83,971 in expenditures to Gov Deals during fiscal year 2008, and \$73,149 in fiscal year 2009 through March. This method of capturing revenue and expenses related to Gov Deals sales differs from the classification of revenue and expenses pertaining to internet sales through EBay. The reason for the classification difference can be attributed to the timing difference between the sale being made and the receipt of the payment; the fee charged by Gov Deals is not retained by the website at the time of the sale, and the fee is paid by the SPO using the voucher process, resulting in an expenditure being recorded.

## **RECOMMENDATIONS**

**Recommendation 1 – Modify the SPO information system to enable adjustments related to internet sales, temporary license tags, and sales tax adjustments. Improve the method of capturing sales tax data to reduce research associated with local option taxes and to expedite processing sales tax returns.**

The SPO has contracted with In-Circuit to develop and implement a new information system at the Surplus Property warehouse. The project is currently in the design phase, thus additional system requirements can be communicated and implemented as part of the system installation. The SPO should require additional fields for recording the fees associated with Internet sales and temporary tags, shipping and handling associated with EBay sales, and the calculation of taxes should be adjusted to take into account any additional fees. Additional system requirements should address issuing refunds and recording items returned or exchanged. To reduce variances and rework associated with sales taxes, the SPO should require that the new information system capture the municipality where the surplus items were sold. The calculation of local option taxes, capital project taxes, and school district taxes are driven by the municipality of the sale. Additional system improvements should address common variations that occur in the calculation of sales taxes, such as the \$300 cap on sales taxes related to the sale of vehicles. One method to overcome the variability in sales tax rates is to develop classes of property that contain alternative calculations based on how the property is classified. For example, when a vehicle is sold, a class entitled “vehicle sold in-state taxable” may refer to a class associated with in-state sales to a customer that is not a state agency or a resale business, and the tax calculation would use a 5 percent state tax rate or a maximum charge of \$300. The project manager within the

Division of General Services who is responsible for the system implementation should document the additional requirements and negotiate with In-Circuit to incorporate the changes.

**Recommendation 2 – Generate Notice of Sales at the SPO warehouse, modify the outputs of Surplus Property’s information system to enable Internal Operations to record the appropriate accounting entries in GAFRS and prepare the monthly sales tax return, and no longer use Internal Operations’ Surplus Property database.**

Implementation of the information system modifications in Recommendation 1 above would result in Surplus Property having the ability to generate identical output as the database used by Internal Operations. The SPO should require that In-Circuit - the vendor responsible for implementation of the new Surplus Property Information System – develop the appropriate reports used by Internal Operations. These reports would include Notice of Sales, data entry worksheets for Internal Operations, and a sales tax report for the preparation of the monthly sales tax return. The project manager within the Division of General Services who is responsible for the system implementation should document the additional requirements and negotiate with In-Circuit to incorporate the changes.

**Recommendation 3 – Separate the administrative fees associated with Gov Deal sales and EBay sales on the notice of sales, and classify costs associated with Gov Deal sales as reimbursements of revenue rather than expenditures.**

The notice of sale should accurately display the service charge retained by Surplus Property instead of including the fees associated with selling the property over the internet. Implementing the additional fields to capture the fees associated with internet sales in Recommendation 1 will

enable the SPO to modify the notice of sale report as needed to display the sales information accurately. This requirement should be communicated with In-Circuit by the project manager within the Division of General Services who is responsible for installing the new Surplus Property Information system.

To properly classify revenues and expenditures for internet sales in the automated accounting system (GAFRS), payments to Gov Deals for fees associated with selling surplus items should be recorded as reimbursements of revenue. Reclassification of the payments will improve reporting because the revenue reported by Surplus will represent the actual fees charged for the sale of donated property, and expenditures will represent actual program expenditures. The Finance Director within the Office of Internal Operations should communicate with the SPO business manager to institute the changes outlined in this recommendation.

## **CONCLUSION**

In summary, the majority of the preceding process changes can be incorporated as part of the new system installation at the SPO. By adopting the recommendations, Internal Operations will realize process-time savings of approximately 80 hours per month. The SPO will achieve savings by reducing research time associated with variances and time-savings due to the elimination of batches and supporting information that is currently forwarded to Internal Operations on a daily basis. Properly classifying the fees associated with Internet sales will reduce State Agency calls pertaining to the selling price of items as well as accurately reflect the service charges retained by the SPO.

*Process Improvement Enhancing Your Organization's Effectiveness* describes the importance of following through after implementing process changes by re-measuring the problem areas that assisted with identifying the initial problem areas. (p.86). Thus, variance analysis should be conducted after system implementation to accurately assess the success of the process changes, and on-going analysis relating to the process should be conducted to foster an environment of continuous improvement.

## WORKS CITED

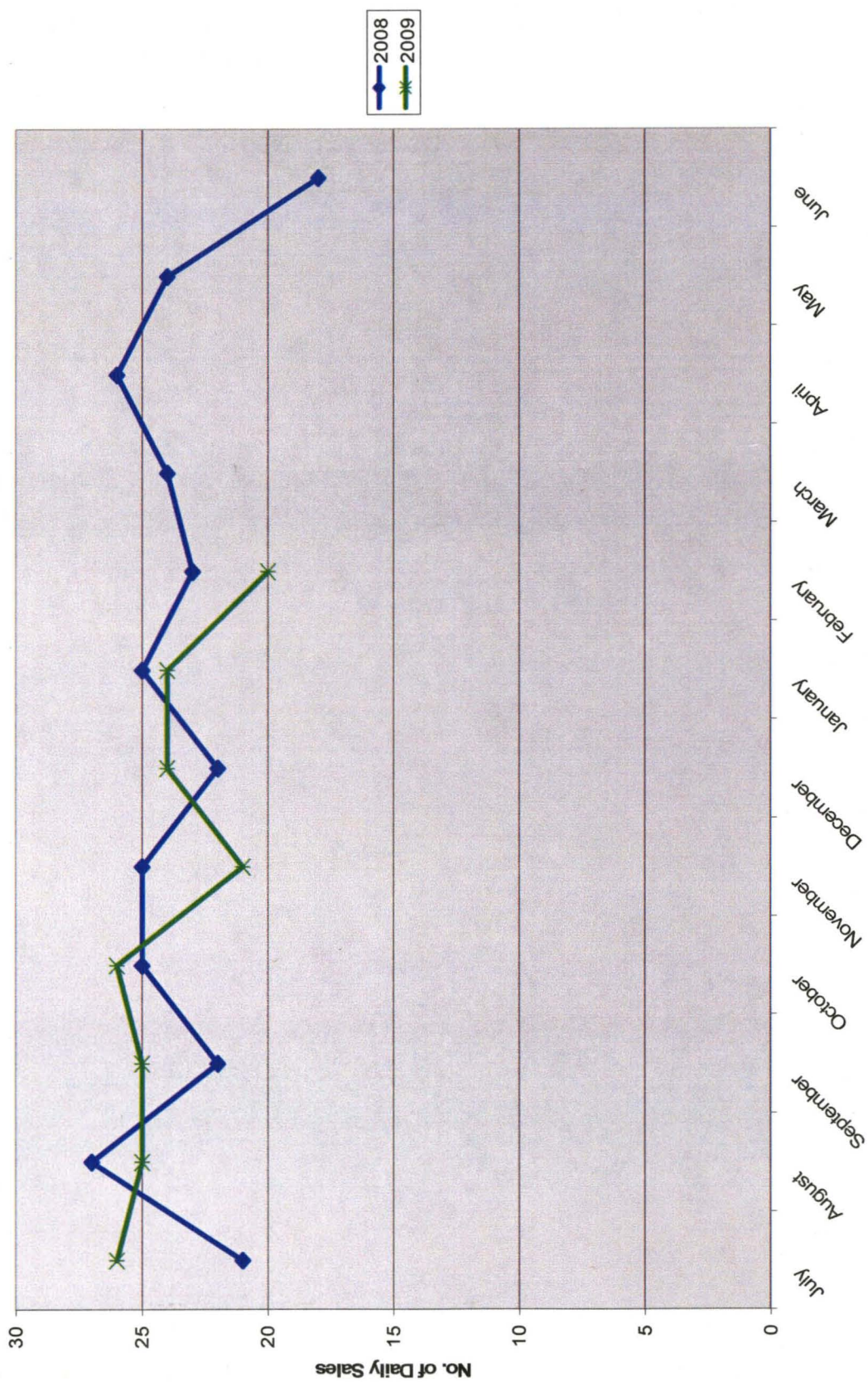
Flanigan, E., & Scott, J. (1995). *Process Improvement Enhancing Your Organization's Effectiveness*: Thomson Learning.

Miller, K., & Lawton, R. (2002). *Change Agent's Guide to Radical Improvement*: ASQ Quality Press.



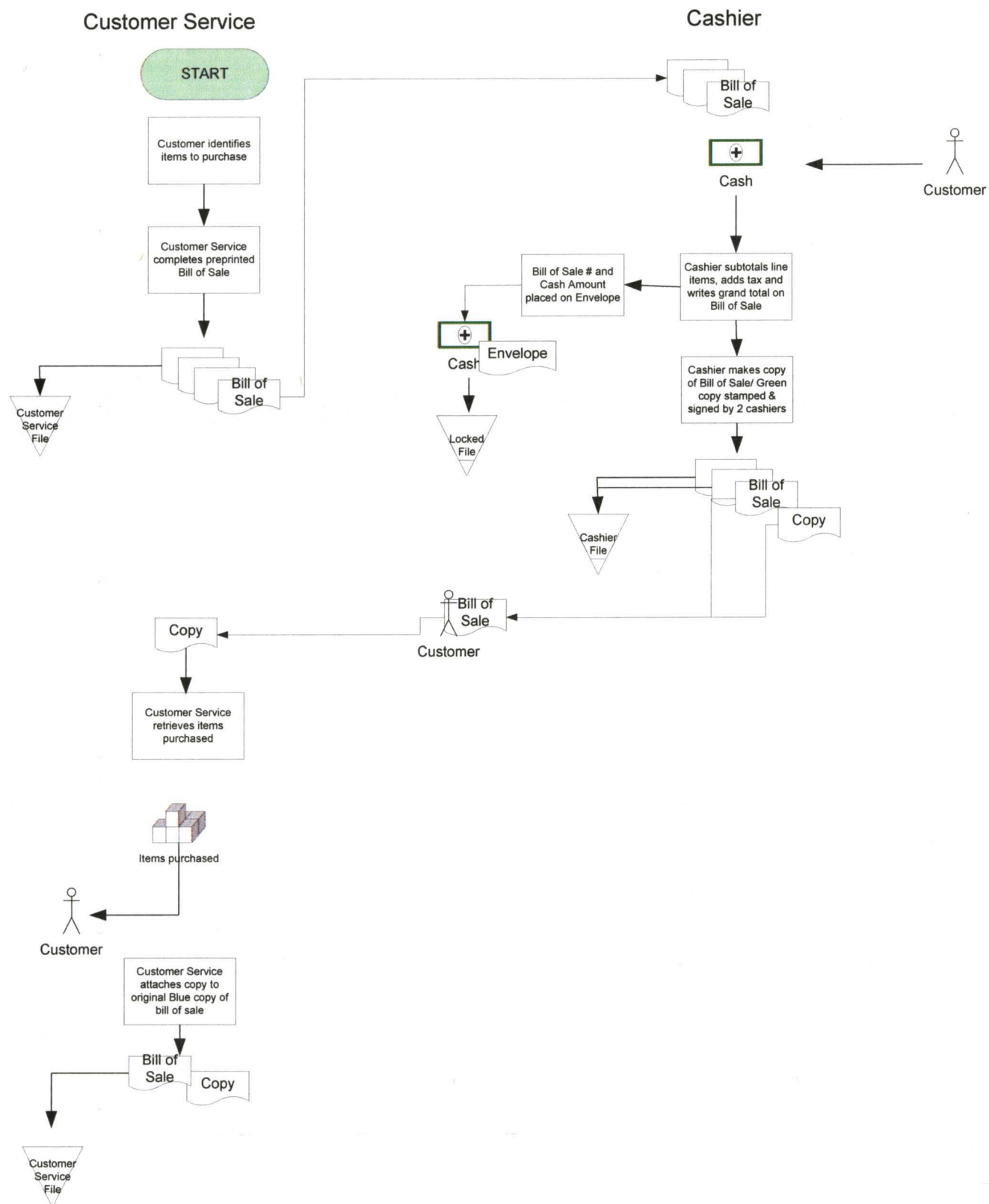
# APPENDIX 1

Summary of Daily Sales



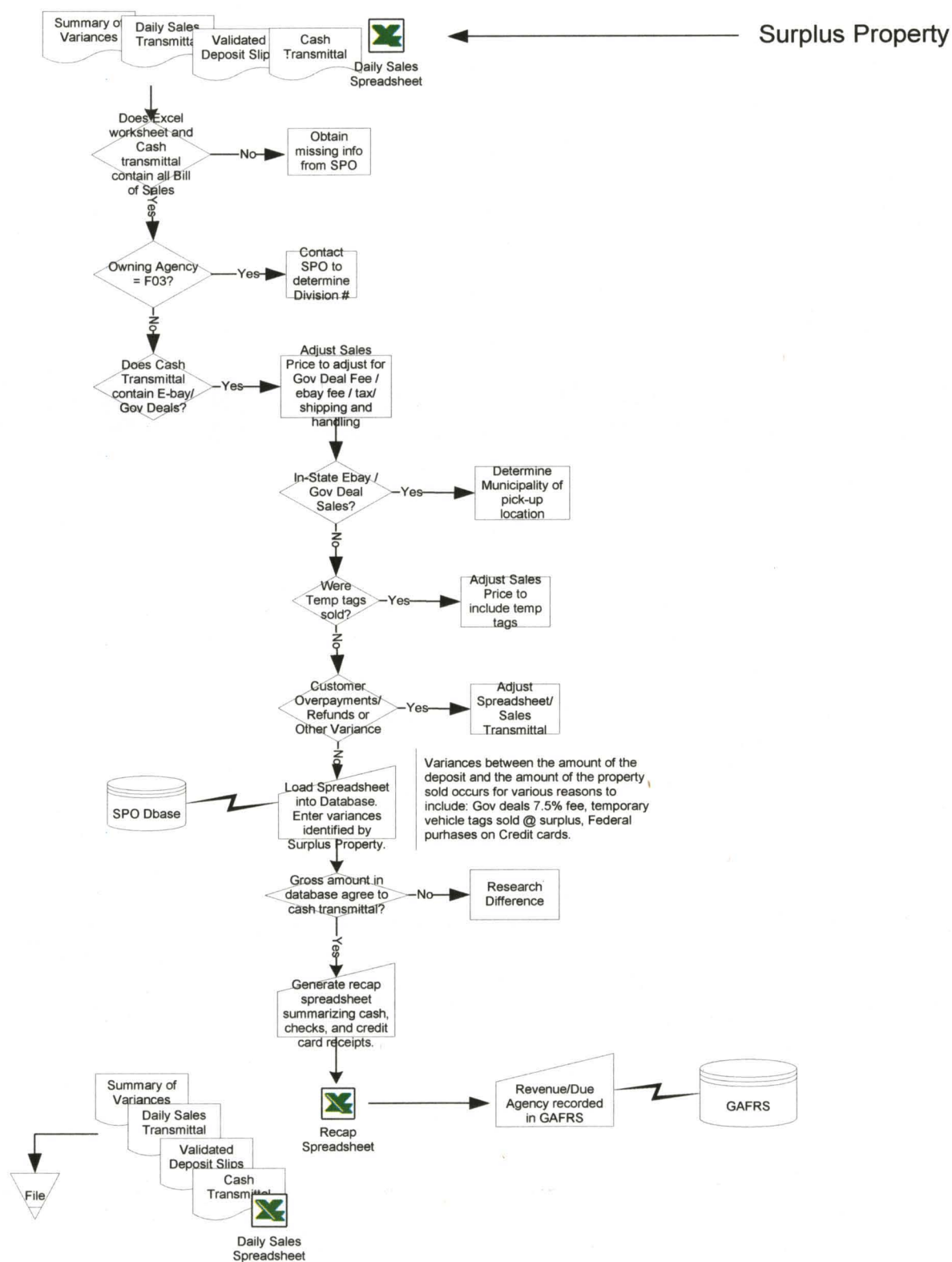
## APPENDIX 2

### Surplus Property Daily Sales Process



## APPENDIX 3

## Internal Operations' Daily Sales Process





## APPENDIX 4

STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
OFFICE OF INTERNAL OPERATIONS

MARK SANFORD, CHAIRMAN  
GOVERNOR

CONVERSE A. CHELLIS III, CPA  
STATE TREASURER

RICHARD ECKSTROM, CPA  
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.  
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STEPHEN L. ELLIOTT  
DIRECTOR

### Notice of Sale of State Property Refund Due to Agency

**Date of Sale: 03/15/2008**

**Date Mailed: 04/08/2008**

Please complete the credit section of a Form 30 Appropriation Transfer in the amount of \$116,730.00. This amount represents proceeds due to your agency for property that was sold by State Surplus Property. The transaction code '310' and the proper subfund and revenue object code should be used in completing the Form 30. A service charge of \$12,970.00 was retained by the Division of General Services.

The Form 30 should be reviewed and initialed by the appropriate financial officer in your agency and returned along with supporting documentation to the Budget and Control Board, Internal Operations - Finance, 1201 Main Street, Suite 700, Columbia, South Carolina, Attention: Dinah Cagle.

A list of items which you transferred to our Surplus Property section for disposition and their selling prices is provided.

BOS Number	TID Number/ Description	Quantity	Selling Price	Service Charge	Due Agency
00082669	S81189049 Ford 8800 Tractor #144678	1	\$7,500.00	\$750.00	\$8,750.00
00082670	S81189012 10 International Rotary Mower	1	\$1,400.00	\$140.00	\$1,260.00
00082671	S81189035 Club Car Utility Vehicle	1	\$850.00	\$85.00	\$585.00
00082672	S81189010 8" Harderr 3PH Rotary Mower	1	\$450.00	\$45.00	\$405.00